

Credit scoring and insurance

How insurance companies use credit information

Insurance companies have used credit information for the last several years to determine your level of risk before selling or renewing your auto, home, or renter policies. They use your credit history, along with other factors to develop an insurance score. Your score may impact your rate or whether a company will even offer you coverage.

An insurance score is based in whole or part on credit information. It may include your bill paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts. It may also include other factors such as your age, claims history, and how many drivers are in your family.

Each company weighs these factors differently, so your insurance score will vary from company to company. Most scoring formulas are developed by a third-party vendor or by the insurer.

Both the Federal Fair Credit Reporting Act and Washington state's 1993 Fair Credit Reporting Act allow insurance companies to use credit information in their underwriting practices. However, Insurance Commissioner Mike Kreidler believes the use of credit information in insurance is inherently unfair and in 2002, he requested a bill to limit its use. The law enacted by the Legislature placed strict limits on how insurance companies use credit history.

Washington's Credit Scoring Law

As of January 1, 2003, insurance companies cannot use your credit history to cancel or non-renew your insurance policy. Also, insurers cannot deny you new coverage based on the following factors:

- The absence of credit history
- The number of credit inquires
- Collection accounts identified as medical bills
- The initial purchase or finance of a vehicle or house that adds a new loan to your existing credit history
- The use of a particular type of credit card, debit card, or charge card
- The total available line of credit you hold

As of June 30, 2003, insurance companies cannot use these factors to determine rates:

- The number of credit inquires
- Collection accounts identified as medical bills
- The initial purchase or finance of a vehicle or house that adds a new loan to your existing credit history

- The use of a particular type of credit card, debit card or charge card
- The total available line of credit held by a consumer
- The absence of credit history - unless the insurer has filed statistical data with our office showing that consumers without credit histories are more likely to file claims

What you need to know

If you receive an adverse action notice from your insurer, the company must tell you in clear language up to four factors that impacted your insurance score, and what you can do to improve those factors. An adverse action is when your rate is increased or when you do not get the best possible rate.

Under the Equal Credit Opportunity Act, a credit or insurance scoring system may not use certain characteristics such as race, sex, marital status, national origin, or religion as factors.

If an inaccurate credit history is used in a scoring model, you should correct your credit history with the credit reporting agencies and notify the insurance company in writing when the correction has been made. The insurer must then reissue or re-rate the policy back to the effective date of the current policy term.

Insurance companies are not required to tell you that a credit check may be part of your application process, but they must tell you if they plan to perform a background investigation.

If you receive an adverse action notice, you are entitled to a free copy of your credit report the insurer used from the credit agency.

How can you get a copy of your credit report?

Your credit report is a listing of events in your credit history. To obtain a copy of your credit report, contact the three major credit reporting agencies:

Equifax (800) 685-1111

Experian (888) 397-3742

Trans Union (800) 916-8800

As of December 1, 2004, consumers may request one free credit report per year from the major consumer credit reporting agencies. For more information on how to obtain a free copy of your credit report, visit the Federal Trade Commission at www.ftc.gov

The Office of the Insurance Commissioner can help you!

If you have any questions or need additional information about your rights, call our Insurance Consumer Hotline at

1-800-562-6900

or visit our Web site at

<http://www.insurance.wa.gov/>